

**Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory**

*This is Part 3 of report 2001-40-106. Appendix VI is in Part 2. The report is in Part 1.*

**Appendix VII**

**Treasury Inspector General for Tax Administration's  
Rebuttal to Management's Response**



INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

June 29, 2001

**MEMORANDUM FOR COMMISSIONER ROSSOTTI**

*David C. Williams*

**FROM:** David C. Williams  
Inspector General

**SUBJECT:** Internal Revenue Service's Response to Draft Letter Report:  
"Our Experience in Asking the Internal Revenue Service Tax  
Law Questions On Its Toll-Free System Was Not Satisfactory"

In your May 18, 2001, and June 7, 2001, responses to the above referenced report, you stated that there were two flaws in the methodology used by the Treasury Inspector General for Tax Administration (TIGTA) in conducting this audit. The first was that the sample was not statistically valid and the second was the use of hypothetical questions.

Let me first describe why this audit was conducted and then address your concerns. TIGTA's responsibility is to conduct independent reviews of the Internal Revenue Service's (IRS) operations. As such, we conducted this review early in the 2001-Filing Season to provide an early, independent assessment of the experience wage and investment taxpayers were encountering when they called the IRS with a tax law question. This is a critical area, particularly in light of the commitment the IRS has made to provide taxpayers with world class customer service.

**Statistically Valid Sample**

TIGTA does not dispute that the sample was not statistically valid. We state in the report that, "because of the limited number of calls we made, our results are not statistically valid...." In this audit, as well as in two other recent reviews on Electronic Tax Law Assistance for small business and self-employed taxpayers and IRS' Taxpayer Assistance Centers (TACs), we reviewed limited, judgmental samples. The use of judgmental samples versus statistical samples is a common practice in business and government, and is used by the General Accounting Office, the Department of the Treasury, and other Inspectors General. Judgmental samples can be done timely, cost

## Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

---

2

less, and are less labor intensive. Although we used a judgmental sample, we reviewed a significant number of calls - 230. During our test period, the IRS quality reviewed 110 tax law calls in its statistical sample.

The IRS' response also stated that our 4-day test period was not representative of the calls received throughout the filing season. Nearly 200,000 taxpayers with tax law questions called the IRS during our audit period: 61,000 on Friday, 29,000 on Saturday, 21,000 on Sunday, and 85,000 on Monday. An analysis of the IRS' Fiscal Year 2000 and 2001 toll-free tax law statistics shows that February was the highest call volume month in both filing seasons. In addition, each day of our 4-day period represents the busiest day respectively, during February 2001. Our selection of test days was evenly balanced between high and low call volume dates. (IRS reports show that most tax law calls are generally received on Friday and Monday with the fewest on Saturday and Sunday.) In addition, the IRS indicated taxpayers made 8.3 million tax law calls during the filing season. IRS statistics show that roughly 3.8 million of those calls were answered by its automated system. We were only interested in those calls that were answered by an assistor. Overall, we believe our 4-day test period provided a fair representation of the tax law calls the IRS received during the filing season.

The IRS contended that Sunday was its lowest volume call day and, therefore, our results are not representative. TIGTA made calls over a 4-day period. As noted in the report, these were the four highest volume Friday, Saturday, Sunday, and Monday days in the month of February. We used this approach because we recognize that taxpayers' schedules may not permit them to call the IRS during the traditional business week. Also, our error rate on Sunday was 47%, only slightly higher than the other 3 days (43% on Friday, 44% on Saturday, and 43% on Monday). While there was a slight increase in the error rate on Sunday, a day the IRS does not review for quality, we do not view 47% to be much worse than 43%. The IRS' response indicates that TIGTA did not provide information on the number of incorrect responses that we identified on Sunday. This information can be found in the report in Appendix IV, figure 4.

Furthermore, when we compare our results to the results from the IRS' statistically valid sample performed on the same days, the results are nearly identical. For example, when we modify our appropriate response rate to mirror the IRS' quality review criteria, our rate increases to 61%. The IRS' correct response rate for the same 4-day period was 66%.

Additional perspective, however, should be provided on how the IRS computes its correct response rate, since the method appears to undermine the validity of the IRS' sampling process. The IRS does not quality review calls made prior to 7:00 AM and

## Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

---

after 11:00 PM (EST) or calls made on Sunday. Since the IRS has call sites in all time zones, calls made from California for instance would not be quality reviewed after 8:00 PM.

More significantly the IRS' correct response rate does not appropriately include two additional types of calls. In the first case, some questions are considered too complex to be answered by the Customer Service Representatives (CSR). Two of our 10 questions fell into this category. We refer to these as referred calls. The IRS does not include these in its reported quality response rate. The second type of calls involve questions that are not considered too complex, but a particular CSR is unable to answer the question and advises the taxpayer that he/she will receive a call back. The IRS does examine these in its quality review and classifies the offers to call back as correct responses. For both of these types of calls, TIGTA went beyond the promised return call or E-mail to determine the accuracy of the ultimate response.

In our sample, our calls were referred or we were offered a call back in 53 instances. The IRS provided a correct response 11 times, an incorrect response 20 times, and did not respond at all 22 times. The IRS' quality response rates would not reflect this aspect of customer service.

These omissions may significantly inflate IRS scores and make it impossible for TIGTA or IRS stakeholders to rely upon them. We have initiated another audit of the IRS' quality assurance process to understand if there are other problems that undermine the validity of customer service data. We will follow-up on the issues discussed and seek to identify improvements to the process that would allow the IRS to provide more useful information to stakeholders.

### **Use of Hypothetical Questions**

The IRS contended that hypothetical questions do not represent actual taxpayer questions and are, therefore, meaningless. As presented in the report, the topics for our test questions were obtained from the IRS' own list of frequently asked questions (FAQ). We selected one question from each of the 10 tax topics listed on the FAQ that would relate directly to Wage and Investment taxpayers. Our 10 tax topics were drawn from a list of 398 questions, not 800 questions as the IRS response states.

TIGTA believed that using the IRS' own FAQ was not only fair, but actually gave the IRS an advantage. The IRS had the opportunity to train its CSRs using questions that it determined would be "frequently asked." The IRS' response claimed that asking questions from its FAQ list placed CSRs at a disadvantage. This claim is difficult for us to understand. We continue to believe that at a minimum, the IRS should be able to answer its own FAQ about tax law, since answers may be referred to specialists,

## Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

---

4

researched using IRS publications, answered using the recommended guide, or answered from IRS FAQ material. These are powerful, comprehensive tools.

Each of the questions we selected from the FAQ was then scaled down to a basic question that would require the CSRs to interview the caller for information before an answer could be provided. This was done to test the CSR's use of the research tools that the IRS provided. Although scaled back, our questions remained very similar to those found on the IRS' FAQ. Below is an example of how we adapted the questions we selected:

Question on the FAQ: I paid into a dependent care benefits plan and the amount is shown in Box 10 of my Form W-2. However, the cost paid to the childcare provider was more. Can the additional expense not paid into the dependent care benefits plan and not shown in Box 10 of the W-2 be claimed on Form 2441?

TIGTA test question: Can I claim childcare credit for my childcare costs that are more than what I paid into my dependent care benefits plan?

The IRS contended that our taxpayer scenarios were complex and did not always provide enough information for it to be able to answer our question. In developing the answers to our test questions, we used the same tools that IRS employees were provided when answering these questions. Accordingly, we used its Probe and Response Guide and related publications to develop the answers to our test questions. Each TIGTA test caller was also provided adequate scenarios for each test question and instructed to provide the additional information if the CSR requested it. Furthermore, on two occasions we met with IRS representatives and spent a considerable amount of time discussing the audit methodology, including the specific test questions and answers. At no time during these discussions did the IRS express any concern with the three questions highlighted in its response.

Regardless, it is important to note that the IRS' system is reportedly designed to even out the complexity of questions its assistors receive. For example, questions are sent to employees who are trained in that topic area. The questions that the employees cannot answer over the telephone should be referred to another more qualified employee for follow-up. For each of the three questions disputed by the IRS, it chose to have assistors provide an answer over the telephone rather than refer them because of their complexity. This deliberate decision would strongly suggest that IRS does not believe the questions were too complex.

The IRS specifically took exception with 3 of our 10 questions. It indicated that these questions represented 55% of all of the answers we considered incorrect, implying that they were too difficult to answer. In fact, these 3 questions only represent 47% of all

## Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

---

5

errors or about 16% per question. With 10 questions, we do not believe a 16% high represents a particularly high variation. Furthermore, one of these three questions was asked in another audit of the toll-free service provided to Spanish-speaking taxpayers and the CSRs provided an appropriate answer about 70% of the time.

The following provides additional insight into each of these three questions. In each case, we provided correct and complete information that our test callers needed to obtain an appropriate response.

TIGTA Question # 1: Can I claim childcare credit for childcare costs that are more than what I paid into my dependent care benefits plan?

TIGTA Answer #1: No, you cannot take the childcare credit. The assistor may walk you through Part III of Schedule 2 Form 1040A or Form 2441 to determine this.

In its response, the IRS noted that TIGTA failed to take into account the Reduced Dollar Limit. Taxpayers qualifying for the credit must subtract the amount of employee-provided benefits they are excluding from income from the \$2,400 dollar limitation (for one qualifying child) of expenses. Our scenario does account for this limitation. If probed, the assistants would have been told we had \$4,500 in employer provided benefits. Therefore in our scenario, we are not eligible to deduct any of our childcare costs because our \$4,500 in benefits received exceeds the \$2,400 limitation. The IRS also indicated that we did not address the issue of the child having a taxpayer identification number. This is incorrect. In addition, a scenario similar to TIGTA's can be found in Publication 17 and one of the first items discussed in the Form 1040A instructions for Child Care Credit is dependent care benefits.

The test callers would have provided the following information when probed:

1. Was the child under the age of 13 when the care was provided? *Child is 4 years old.*
2. Does the child have a taxpayer identification number? *Yes.*
3. Did you keep up a home that you live in with your child? *Yes, an apartment and I paid all the child's living expenses.*
4. Was this the main home for both you and your child? *Yes.*
5. Did your child live with you for the full year? *Yes.*
6. Did you have earned income? *Yes, \$26,450.*
7. Did these expenses allow you to work? And do these expenses provide care for your child? *Yes, I paid for childcare while I was working.*
8. What is your filing status? *Head of Household.*
9. Does your employer provide dependent care benefits? *Yes, I paid \$4,500 into a dependent benefit care plan.*

## Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

---

6

TIGTA Question #2: My employer sent me a 1099-MISC instead of a W-2. The 1099 shows my wages as non-employee compensation. I was an employee. What do I do?

TIGTA Answer #2: You are being treated as a self-employed worker, also referred to as an independent contractor. If you believe you are an employee and not an independent contractor you may request a ruling by filing Form SS-8. You must file your income tax return before a determination can be issued. To file as a non-employee, you have to report your non-employee income on Form 1040 Schedule C, or Form 1040, Schedule C-EZ. You also need to complete Form 1040, Schedule SE, and pay self-employment tax on your net earnings from self-employment of \$400 or more.

The IRS stated that this question required the assistor to make two determinations. First, is the taxpayer an employee or independent contractor? Second, if the taxpayer is a contractor, how should he claim his income? Our test callers offered that they considered themselves an employee and asked how they should report the income shown on their Form 1099-MISC. We also wanted to know how to get the independent contractor designation reversed. We did provide our test callers with sufficient information to address the employee/independent contractor issue if the CSR pursued this issue.

The test callers would have provided the following information when probed:

1. Does the homebuilder tell you how, when, or where to work? *Yes. He tells me which houses to work in and when.*
2. Did the homebuilder tell you what tools to use? *No.*
3. Did the homebuilder tell you what assistants to hire? *I work alone.*
4. What order or sequence to follow when doing the work? *No.*
5. Did you have a significant investment in the work? *No, I own my own tools but don't maintain any facilities.*
6. How were you paid? *Hourly.*
7. Can you realize a profit or incur a loss? *No.*
8. Did you receive benefits? *No.*
9. Is there a written contract? *No.*

We would like to point out that this exact question was also asked in another audit of the toll-free service provided to Spanish-speaking taxpayers and the CSRs provided an appropriate answer almost 70% of the time.

TIGTA Question #3: Can I deduct the tuition that I paid for my child's school?

## Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory

---

7

TIGTA Answer #3: You can deduct the tuition you paid for your child to attend a special school for the blind. This deduction can be taken on the Schedule A as a Medical and Dental Expense. The amount you will be able to deduct is that amount that exceeds 7.5% of your Adjusted Gross Income.

The IRS indicated that TIGTA did not take into account that the taxpayer can deduct the cost of meals, lodging and ordinary education supplied by a special school if the main reason for being there is the resources the school has for relieving the physical disability. Our scenario addresses the tuition only. Therefore, the fact that the cost of meals and other educational expenses are deductible is irrelevant. If we had included these costs in our scenario, the correct answer still would have been that we could deduct the expenses as a Medical or Dental Deduction. These additional expenses may have simply increased the amount of our deduction.

The test callers would have provided the following information when probed:

1. Is the school a special school for a mentally or physically disabled person? *Yes, my child is blind.*
2. What costs are included in the tuition? *My spouse and I paid \$12,000 in tuition costs. We did not receive any reimbursements. We paid the expenses in installments and all payments were made in 2000.*
3. Were the expenses paid for your dependent? *Yes, the expenses were paid for my child.*
4. Are you able to itemize? *Yes.*

In summary, both of our audits (toll-free and TAC), as well as the IRS' own statistics, show a clear need for the IRS to significantly improve the service provided to taxpayers that ask tax law questions. These improvements are urgently needed if the IRS is to fulfill its commitment to provide world class customer service to taxpayers. We believe that this is the material issue the IRS should be focusing on. We are, however, pleased that the IRS agrees that this area warrants improvement and has outlined a course of action to address it.

As you have suggested, we will audit the IRS' method of measuring quality and accuracy. Nonetheless, until concerns about the quality assurance process can be resolved, we may still need to rely upon other methods of evaluating customer service activities.